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**Deepening Integration:  
The Political Economy of Regionalism in East Africa**

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### **1. Introduction**

Over the last few decades, the world economy has experienced a two-pronged development. Globalization has been apparently increasing, signifying the importance of the [www.com](http://www.com) revolution, foreign capital and foreign trade in the development process (Weiss et al, 2004). At the same time, regional integration – evidenced by the current regional trading blocs plus the Free Trade Agreements (FTAs) between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries – has been increasing. A major innovation of the last few decades is that both global multilateralism (orchestrated through the World Trade Organization) and region-specific ‘bilateralism’ are increasingly interpreted from a developmental perspective (Michalak and Gibb, 1997; Tandon and Allardice, 2004; Khor, 2007). Simply stated, the debate is whether multilateralism and bilateralism create or block development policy space for today’s poor countries. The debate has been polarized between those who believe that multilateralism fosters the interests of developing countries (eg. Dollar, 2001) and those that are skeptical of this view (such as Chang, 2002; 2007).

By the beginning of the new millennium, some degree of consensus had emerged. The mainstream development philosophers and their critics seem to agree that neither multilateralism nor bilateralism is set in stone. Both are subject to modifications, as the resuscitated EU-ACP FTA negotiations suggest. That multilateralism and global market integration underscore the importance of the ICT revolution, foreign direct investment and foreign trade in the world economy is no longer debatable. That regionalism seeks to reproduce the global picture at a smaller geo-political level is not debatable either. What is debatable is whether regionalism – negotiated or imposed from above – deepens or modifies globalization in the pursuit of the long-term developmental outcomes of developing member-states. The view of the intellectual orthodoxy is that the recent increase of regional trading blocs signifies that free trade, regionally *and* globally, is a key instrument of development. It allegedly signifies the erosion of country-specific policies (such as infant industry protection) in the current era of global multilateralism

and bilateralism. The inference drawn by the IMF/World Bank fraternity and other High Priests of free trade (eg Baghwati, forthcoming) is disturbing: An appropriate development policy for developing countries must now be “trade-led” and “free-market oriented”. Critics of the intellectual orthodoxy have urged caution (see, for example, Chang, 2007, chap. 3).

It is the purpose of this paper is to critically reflect on regional integration in East Africa. East Africa will be conceptualized in terms of the member-states of the East African Community (EAC), namely, Uganda, Kenya, Tanzania, Rwanda and Burundi. The aim of the paper is to understand the key individual and institutional drivers of integration (the winners) as well as the real or perceived “losers” who, ipso facto, become obstacles to economic *and* political integration in East Africa.

### *The Argument*

The central claim of this paper is that no country is capable of reaping substantial development dividends unless its integration agenda is an extension of domestic economic mercantilism. By mercantilism I mean the use of state power and domestic institutions to promote durable growth. Durable growth, I contend, is unlikely unless small actors (such as the East African states) form larger economic *and* political unions. Once a larger regional bloc is forged, however, integration works only if it is guided less by orthodox trade theory and more by production economics theory. The accent must be on wealth creation via strategic trade and industrial policies (Chang, 1994; 2002; ul Haque, 2007). This means rejecting premature global market integration in favour of regional integration. It means building domestic wealth-creation capabilities in preparation for long-term penetration of the ultra-competitive global markets. This suggests that integration must simultaneously modify global multilateralism and redefine the arena of domestic political economy actors. Concerted efforts must e made to shift from the traditional nation-state borders to the regional political economy arena.

But that is not all. Within the regional bloc, integration inevitably creates winners and losers in the short-run. Over the longer term, however, all the major claimants on the

regional political economy can, and should, reap substantial development dividends. The argument of this paper is that a win-win situation is possible in the quest for East African integration. But this will not come on a silver plate. It will inevitably be a product of a struggle. The first phase of this struggle, I contend, is at the level of knowledge generation and information sharing. Leading political economy actors need to understand that the current global political economy premised, as it is, on orthodox trade theory, is simultaneously beneficial to the high-tech industrial economies (such as USA and EU) *and* detrimental to the primary commodity producers (such as East Africa). For East Africa's countries, therefore, integration is an issue of survival. East Africa's countries and other developing nations have a right to survive the harsh global economy that is dominated by powerful industrial and knowledge economies.

#### *Analytical Perspective*

The paper adopts a winners/losers analytical perspective for a simple reason. The success of regional integration will, to a large extent, depend on the strategic interests and behaviors of the different political economy actors. It will arguably depend on the degree to which undisputed short-term winners (such as the relatively more efficient industries based in Kenya) forge alliances with influential integration-minded politicians and bureaucrats to push for integration *without* wishing away the legitimate concerns of the real or perceived short-term losers (such as the industries based in Uganda and Tanzania). This suggests that a calculated political economy approach is absolutely necessary if the obstacles to integration are to be overcome. For integration to work, the key actors need to develop a binding developmentalist ideology, particularly economic mercantilism.

#### **Mercantile Roots of Effective Integration**

Mercantilism has been a controversial term in political economy. Liberal and Marxist political economists conceptualize economic mercantilism in pejorative terms. In the liberal tradition, mercantilism implies the use of protective tariffs, the shielding of inefficient firms from market efficiency and, in short, the distortion of markets (Coleman,

1969: 5-6).<sup>1</sup> This view springs from Adam Smith's (1776/1937) *The Wealth of Nations*, in which Smith outlined the "mercantile" system. The term was not his invention, but the exposition was.<sup>2</sup>

Marxian analysis is also pitted against mercantilism. The Marxian variant of the German historical school describes mercantilism as "the ideology of the monopoly trading companies" (Coleman, 1969: 7). In Marxist theory, mercantilism is "a system of State-regulated exploitation through trade ... [It is] essentially the economic policy of an age of primitive accumulation".<sup>3</sup> Neither Marxism nor liberalism appreciates the *dynamic* character of mercantilism; the fact, that is, that mercantilism changes in character, depending on the contingent needs of the national economy.

My point of departure is that the *contents* of economic mercantilism (or developmental nationalism) are not set in stone. The tools used might involve *direct* state involvement in promoting development or *indirect* approaches such as subsidizing private entrepreneurs. It might involve protectionism at one time and economic openness (or globalization) at another, depending on the concrete demands of the national economy.<sup>4</sup>

Evidence suggests that the countries that are now advanced used nationalistic policies to grow (Chang, 2002; 2007). Importation of manufactured or luxurious products was discouraged (via high tariffs or even a total ban). Second, to stimulate domestic industrialization, importation of raw materials was encouraged while the export of raw

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<sup>1</sup> For a newer (but under-researched) account drawing on the neo-liberal tradition, see George O'Brien, An Explanation of Mercantilism, at <http://www.daft.com/~rab/liberty/misc/mercantilism.html>, accessed 5 January 2005.

<sup>2</sup> The earliest use of "mercantile system" appears in Victor Riquetti's (1763) *Philosophie Rurale*, in which he talks of the "Absurd inconsistency of the mercantile system" (*systeme mercantile*) p. 329. This was a critique of the view that a nation benefits from importation of money, an earlier theoretical perspective that understood mercantilism as an economic doctrine "based on the principle that money alone is wealth" (Coleman, 1969: 1).

<sup>3</sup> Dobb, 1946: 209 quoted in Coleman, 1969: 7. I hasten to point out, though, that mercantilism does not figure much in Karl Marx's treatment of history.

<sup>4</sup> The German literature shows that *Merkantilismus* (mercantilism) is no ordinary economic policy. It is above everything else, "a policy of state-making (*Staatsbildung*) carried out by wise and benevolent rulers" (Cameron, 1989: 129). Gustav (von) Schmoller (1896) argued that mercantilism "in its innermost kernel is

materials was prohibited. [Under the reign of King James I, England for example, banned the export of unfinished cloth to the Netherlands (the economic hegemon of the time). Third, the hemorrhage of gold or silver (a mercantilist measure of wealth) was discouraged.<sup>5</sup> Fourth, imports of skilled artisans and machinery were encouraged; while “exports” of skilled industrialists and equipment were restricted. Fifth, navigation laws were formulated to promote domestic shipbuilding industries and create business for domestic investors.

These policies of mercantilism historically took roots in countries that acquired an ideology of nationalism, backed by improvements in state bureaucracies. Typical examples are 17<sup>th</sup> century France under the reign of King Louis XIV and the economic leadership of Jean-Baptiste Colbert (Cole, 1939/1964). Another case in point is the reign of the Tudor Monarchs in England (named after Henry Tudor) particularly Queen Elizabeth I (1558-1603). Evidence clearly shows that nationalism as an ideology plays an insignificant developmental role unless it is *institutionalized* in some form of state bureaucracies. According to Chalmers Johnson (1982), the institutionalization of a developmentalist ideology was perfected by Japan’s MITI in pursuit of rapid “late” industrialization.<sup>6</sup> This paper argues that the presence or absence of a developmentalist ideology is an important explanation of winners and losers in the process of integration.

Once a country changes the structure of the domestic economy from primary commodity production to high value added industrial and information outcomes, the tools of mercantilism necessarily change. For instance, instead of protectionism, today’s advanced countries advocate for economic openness or globalization. In the place of coordinated domestic investment, many are pushing for capital exports via increased FDI flows. Instead of protected domestic markets, developed countries now push for the

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nothing but state-making – not state-making in a narrow sense but state-making and national-economic-making at the same time” (p. 69).

<sup>5</sup> Spain for example declared the export of gold and silver punishable by death in the early 16<sup>th</sup> century. France declared the export of gold and silver illegal in 1506, 1540, 1548 and 1574 (Frieden and Lake, 1987: 67).

“Singapore Issues” including, the *national treatment* of foreign investors by host developing countries. This suggests that backward economies that adopt the global integration logic of advanced countries do so to their detriment. The solution, it would seem, lies in forging larger economic and political unions with countries that are at comparable levels of development.

To underline the challenges posed by the harsh global political economy is not to suggest that backward economies have absolutely nothing to gain from the world economy. Revolutions in information technology, increased FDI flows from the North to the South, and innovations in biotechnology all seem to offer new hope to developing countries. However these benefits accrue to serious actors (such as Taiwan and China) that put in place the right institutions and policies for national development. The balance of power in the global economy is skewed against developing countries, particularly those that are slow at crafting developmentalist institutions and policies – such as the EAC member-states. Yet, the orthodox political economy agenda creates little space for late developers – unless they really work hard. [The on-going attempt by USA to restrict Chinese manufactured exports is a rude reminder that free-market fundamentalists tend to become provincial cum protectionist whenever their national interests are at stake – Stiglitz, 1999].

### **East African Winners and Losers in Historical Perspective**

Economic cooperation in East Africa is traceable to the late 1890s, when the East African region embarked on the construction of Kenya-Uganda railway (1897-1901). From then onwards, several regional initiatives followed. These include the establishment of the customs collection center in 1900; the formation of the East African Currency Board in 1905; the Postal Union in 1905; the Court of Appeal for EA 1909; the Customs Union Of 1919; the EA Governors Conference of 1926; the Income Tax Board of 1940; and the Joint Economic Council of 1941. A provision was made by the East African High Commission Orders in Council of 1947-1961, the EA Common Services Agreement of

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<sup>6</sup> The Asian tigers such as Taiwan, Singapore, and South Korea that followed the Japanese example have reaped substantial developmental dividends – in comparison with Southeast Asia and sub-Saharan Africa that have been relatively unsuccessful in building developmentalist institutions.

1947-1966 and the Treaty for East African Cooperation of 1967 for the establishment respectively of the East African High Commission, the East African Common Services Organization and the East African Community as successive joint organizations of the member states. The aim was two-pronged. First, East Africa member-states wanted to coordinate their common developmental interests. Second, they sought to regulate their commercial policies and industrial transactions (Serunkuma, 1987). Although the EAC was dissolved in 1977, the revival of the community that has also seen the inclusion of Rwanda and Burundi calls for a critical study of the EAC from a historical point of view, to figure out who the historical and contemporary winners and losers. The ultimate object is to forge a concrete program for durable regional integration in East Africa.

Many arguments for regional cooperation reflect the problems of member-states. For example, land-locked countries particularly Burundi, Rwanda and Uganda want access to the sea and the relaxation of tariffs on their imported products. The treaty for the East African Community signed by the then three member states (Uganda, Kenya and Tanzania) in 1967, was a super national *de jure* recognition of a historical relationships that bind the three East African states. The historical ties arose from the ethnic homogeneity of the people's of the region, common cultures, the comparable level of development, a common colonial experience under British imperialism, and determination to build strong economies for the people of East Africa. Though Tanganyika territory (as it was then) was originally under the Germany sphere of influence, most of its colonial history was under British rule as a mandate-ship and later, a trustee territory.

As early as 1924, Kenya imposed an external protection tariff of between 30-40% on sugar, timber, wheat and wheat flour, butter, cheese, ghee, ham, and bacon. Five years later, Uganda set up a tariff committee to review the effects of the common custom on Uganda. It reported that Kenyan goods were high priced and of low quality, and that Kenya could not meet all the demands for the protected commodities. None the less, it was decided that in the interest of building a common market, that the sacrifices of the

interest of Ugandan consumers were a small price to pay (Tandon, 1971). It would thus not be absurd to expect the losers to take defensive and protective action.

The White settlers in Kenya wanted a political federation of East Africa, with them in control. They went as far as eliciting support from the few settlers in Tanganyika. In 1925, a settler's conference took place in Tukuyu, Tanganyika, attended by settlers from not only Tanganyika (Kiapi, 1972). At the insistence of Lord Delemare, another unity conference took place in Nairobi followed by another in Livingstone in Northern Rhodesia. This enthusiasm of the Kenya White settlers to rule and dominate East Africa left a permanent mark on the East African Cooperation, and is one of the historical causes of the misunderstandings the community has had (Ibid). Thus it can be seen that much as the people of East Africa wanted to forge a strong solidarity, other states formed a barrier, which had lasting negative impacts on the community.

In 1948, when the East African High Commission was established, Uganda and Tanzania had complainants on the issue of not obtaining a commensurate share. This was based on the fact that trade within the defacto common market was heavily in favor of Kenya and to the comparative disadvantage of both Tanzania and Uganda. Another compliant was that most industries and their headquarters were located in Nairobi- Kenya and therefore received a big share of the customs and other revenues. Again Tanzania complained that it was not well served by the East African Railways and Airways since the railway lines to Tanganyika were too short, and only smaller planes flew to Dar-es-Salaam. Again as Kiapi (1972) noted, most of the High Commission establishments tended to be concentrated in Nairobi to the disadvantage of the other two countries.

In an attempt to rectify the complaints by Uganda and Tanzania, the East African Economic and Fiscal commission, headed by one Jeremy Raisman, admitted after consultations that the benefits of the common market were not equally shared, while at the same time noting that none of the territories had suffered actual loss by belonging to it (*The Raisman Report*, 1961). Proposals made by the Commission that a redistributive pool fund would off-set, in some degree, the inequalities in the benefits derived made

Kenya unhappy as she saw the transfer as a heavy burden on its public revenue resources. Uganda and Tanzania too did not want this kind of compensation because they wanted economic activity and more manufacturing industry.

In the 1950s and the 1960s again severe frictions between Kenya, Tanzania and Uganda arose over benefits from the economic integration within the East African Community. Uganda and Tanzania contended that all the gains were going to Kenya, which was steadily enhancing its position as the industrial center of the common market, producing 70% of the manufactures and exporting a growing percentage of them to its relatively less developed partners (Schiff and Winters, 2003).

A look at the intra-regional trade reveals that Kenya's exports to and imports from the other two countries dominated more than 90% of it. Uganda and Tanzania, was sharing between them less than 10% of the total inter-country trade (Tandon, 1971). In 1962 for example, out of the total inter-country trade of €26,766,000, Kenya's exports to and imports from Uganda and Tanzania consisted of €4,660,000 while Uganda-Tanzania trade amounted to only €2,106,000. In 1966, the total East African amounted to €43,986,000 of which Kenya's trade came to €40,024,000 whereas Uganda and Tanzania had exchanged goods worth a paltry €3,962,000, (Semakula, 1987). This trend did not change during the operation of the EAC; in any case, it grew worse.

The concentration of industries in Nairobi meant a bigger elite and hence a more effective market, bigger incentives for the expansion of industry, relatively better economies of scale in Kenya, and therefore the division of foreign investment to Kenya from the other countries. The natural consequence of this phenomenon was an ever growing imbalance in inter-country trade. The EAC treaty had been designed to deal with this problem through various measures but even in the 1970's the picture was by no means less gloomy.

Hence it can be seen that the EAC and the relations among the stakeholders were to a great extent the products of a history that gave Kenya a dominant economic status within

East Africa. In fact, historical factors favored Kenya economically over the other countries and this went so deep that no amount of redress could with total success bridge the gap. The existing structural and economic advantages for industrialization were decisively better in Kenya and other industries were further attracted there. By the time Uganda and Tanzania were in position to question the inequality of the common market, Kenya had already established its commercial leadership in East Africa. Upon attaining independence, it became a constant struggle on the part of the states to combine somewhat incongruous goals- redressing the imbalances while simultaneously upholding individual national interests, (Tandon, 1971), the EAC was the chosen vehicle to level out the ground.

### **The Collapse of the East African Community**

In 1977, barely a decade after the birth the EAC, the treaty that established the EAC was officially dissolved, to the disappointment of many people, both in and outside the region. In the subsequent propaganda that attempted to apportion blame for the breakup, the press and broadcasting networks of the former partner states, tried to prove that each country pursued a more rational political ideology and that trouble lay with the other. The main reason contributing to the collapse according to the preamble of the Treaty of 1999, being lack of a strong political will, lack of strong participation of the private sector and civil society in the cooperation activities. There was also the continued disappointment regarding the sharing of benefits of the community among the partner states due their difference in levels of development and lack of adequate policies to address this situation.

On the political side, Tanzania projected its country's socialism, as being the best option for the poor people of the developing countries. Kenya in turn bitterly opposed this view and at the same time defended its capitalist oriented approach as a better ideological choice. Uganda under Amin, to Tanzania was a fascist state that could not be recognized as a partner on the governing council of the community. To Kenya, Amin was a nuisance that had, however, to be handled delicately. This was because, following the closure of the Tanzania-Kenya border, Uganda was the sole surviving market of the community

wide market, hitherto enjoyed by the Kenyan based industries for their manufactured goods.

In addition, Obote's fall thus greatly affected the community. Tanzania's Nyerere refused to accept Amin's leadership, and even to recognize Uganda's nominees as successors. Uganda was accused of withdrawing the top managers without prior consultations. As Kiapi (1972) notes if there had been goodwill and the spirit to cooperate on both sides, the matter was just a molehill that could have been knocked down at a stroke, but because good faith was lacking, it developed into a gigantic mountain mainly because of a matter of personalities.

Following the 1971 coup d'état that ousted Obote, relations between Uganda and Tanzania became constrained leading to armed border confrontations between the two states. Amin accused Tanzania of harboring and assisting pro-Obote dissidents, who were planning to reinstate Obote by force, using Tanzania as their base. Indeed in 1972 there was an abortive attempt by pro-Obote guerillas to take over the Kampala government. They attacked Uganda through north western Tanzania border with Uganda. The hostilities were only cooled down by the Somalia government leading to the Mogadishu settlement.

The continued disproportionate sharing of benefits of the community among the partner states due to the differences in their level of development was the main reason for the collapse of the community. Uganda and Tanzania claimed that Kenya was having a bigger share of the community's benefits and that they were losing out and since efforts through the Phillip's Commission and the Kampala Agreement of 1964 had failed to successfully address the situation; the community could not survive long. This is actually in line with what Hazelwood (1987) noted that the case of integration rests on the benefits a country will obtain from the integration. It is not the case for helping oneself. Integration will not succeed unless every partner benefits. The benefit is for everyone or none.

### *The general public/ citizens*

The absence of any meaningful participation by the general public in how the regional cooperation was run and in what direction it should go is another factor that led to the collapse the EAC. It has been argued by some scholars that since the colonial days, integration had not seen the input of the general public but was the jealously guarded preserve of the political leadership and the state bureaucracy. The presidents practically had unfettered powers to with the integration whatever they deemed fit in their private estimation, the views of the silent majorities being of no consequences. As Wiarugala-Wa'Ga (1987) noted, the public became increasingly non-nonchalant towards the integration and even in Kenya which had the highest benefit, apathy was not absent. Either foreign private investors or minority national bourgeoisie owned the industries there while the African population settled for either subsistence or at best the export production sector.

### *The private sector and civil society*

Under Article 136 of the EAC treaty, the partner states agreed to provide an enabling environment for the private sector and the civil society to take full advantage of the community and to strengthen and promote their role as an effective force in the development of their respective countries. To this end, they intend to promote continuous dialogue with the private sector and the civil society to create an improved business environment for the implementation of agreed decisions in all economic sectors and to provide an opportunity for entrepreneurs to participate actively in improving the policies and activities of the community that affect them to increase their confidence in policy reforms and raise their productivity while lowering the costs.

It can thus be argued that the institutional bottlenecks generally singled out as being responsible for the break-up of the EAC, are, and manifestations of the violent nature of the operation of financial capital. Thus with the dissolution of the treaty that the contracting parties signed, the mediation agreement of 1984 for the division of assets and liabilities of the former community and interestingly under the same agreement, the said countries agreed to explore and identify areas for future cooperation and to make

arrangement for such cooperation. This led to the signing of the agreement establishing a permanent tripartite commission for the East African Cooperation on November 30 1993.

It should however be noted that the cooperation in EA has always been under crisis, for the countries were not really united towards cooperation. All the countries were often national gains and thus the issue of cooperate development has always been a myth with Uganda and Tanzania claiming that Kenya was reaping the lion's share of the community arrangements, for the terms of trade were heavily in her favour.

### **Contemporary Winners and Losers**

In recent years, in response to globalization and widespread interest in regional integration in Africa, Uganda and its principal East African trading partners- Kenya and Tanzania- together with the newly admitted members comprising of Rwanda and Burundi have sought to strengthen their mutual diplomatic ties through reestablishment of the East African Community (EAC) . Today, the five countries are set to embark upon a new EAC custom union that would unite their currently dissimilar trade policies around a single, common external tariff regime that will allow unimpeded intra-regional trade, while eliminating non-tariff barriers enforced by the East African Countries. Following the conclusion of the consultations on the fast tracking of the political federation, majority of the people in East Africa supported the regional federation. Kenyans accounted for 69% of those who supported it, Tanzania, gave it 74% and Uganda 77% (*The New Vision*, 25 October, 2007).

Uganda maintains an appropriately more liberal trade regime than its two East African neighbors. Although transition to more broad-based tax systems has progressed considerably in the there East African counties, tariff revenues remain a more important element of fiscal revenues in Kenya and Tanzania than Uganda. In addition given that the industrial capacity of Kenya is much larger that that of either Tanzania or Uganda, whose economies remain predominantly agrarian. Thus, concerns about the economic impacts of eliminating tariffs and other controls on a regional basis in East Africa have arisen in private and public sector circles, especially among owners of manufacturing and other

enterprises in Uganda and Tanzania who fear being adversely affected under the new customs union by import competition from manufactures produced in neighboring Kenya.

The common external tariff levels under the three regional integration scenarios imply different degrees of trade liberalization in the EAC countries. Uganda and Kenya already enjoy relatively liberal trade regimes, so establishing the EAC common external tariff at a maximum level of 20% may impose economic costs on both Kenya and Uganda, depending upon the product coverage of the maximum tariff band and the extent to which current most favored nation (MFN) tariffs in the two EAC countries are less than 20%. At the same time, the new EAC customs union should be expected to improve economic welfare in Tanzania where the current average MFN tariff is substantially higher than the proposed CET, about 34% (DeRosa, Obwona and Ronningen, 2002). Open regionalism should also be expected to improve economic welfare in all three EAC countries because it implies significant trade liberalization in all the three EAC countries, strictly giving rise to trade creation and greater economic welfare everywhere in the East African region.

On the other hand, DeRosa et al (2002), observe that Kenya does capture the largest economic benefit from the new customs union, owing mainly to the country's current dominance of regional trade and regional manufacturing capacity. In contrast, the economic gains found for Tanzania derive principally from reduction of the country's current high protection. Uganda loses from formation of the new EAC customs union because under the high CET scenario the country must raise its current average external tariff rate by over 50%, from 10.6% to 16.2%.

All the counties in the EAC will also enjoy higher economic welfare under open regionalism, Kenya by nearly 3% of GDP, Tanzania by 2% of GDP and Uganda nearly by 1% of GDP. Under open regionalism imports increase most in manufactures, and exports increase most in processed foods and other primary products in all three countries within the manufacturing sector, exports of other manufactures expand in both Kenya and Tanzania.

In Uganda, import-competing firms in the manufacturing sector benefit chiefly at the cost of Uganda from the significantly increased protection adopted by the country on joining the new EAC customs union under the high CET scenario. This is clear in the case of imports of machinery and equipment and imports of other manufactures. DeRosa et al (2002) argue that producers of sensitive sector products face the most degree of increased competition from imports under the new customs union, because although protection is widely raised for sensitive sector products, protection for produced inputs used by the sectors also rises, and simultaneously the exchange rate appreciates by 2.6%. What's worth noting here is that the increased protection causes real imports to decline across a wide range of manufactures. In sum, the international competitiveness of Uganda's primary good sectors, which account for the bulk of the country's exports, it is also adversely affected, through the indirect effect of the appreciation of the exchange rate.

On the other hand, Kenya and Tanzania enjoy substantial economic gains from the liberalization of their external trade regimes under the new customs union. This is especially true for Tanzania, which currently enforces an average tariff two-to-three times higher than the average external tariff proposed for the new East African customs union. Imports of manufactured goods and sensitive sector products tend to increase more in Kenya and Tanzania than in Uganda, suggesting that import competing firms in Kenya and Tanzania face greater import competition and hence greater pressure from economic adjustment under the new EAC custom union than similar import-competing firms in Uganda. This pressure on the other hand can be regarded as having a positive effect for Uganda because it necessarily involves adjustment to more competitive world class production technologies and management methods by import-competing firms in Kenya and Tanzania.

In addition, creating a common market means removing obstacles to the free movement of both labor and capital. The latter is highly favorable for Uganda and Kenya and could have important developmental benefits for Tanzania. However, as Booth et al (2007) note, this is a highly sensitive political issue especially in the case of Tanzania. The

harmonization of taxes and investment incentives may be easier and beneficial for the member countries both in promoting the region as an investment destination and in enabling more competition among investors and potential investment incentives are currently visible. The problem that may arise here is that in Tanzania, there is a strong undercurrent resistance to ceding land rights to foreigners including citizens of the other four member countries, which poses a substantial obstacle to cross-border investment. Another example cited by Booth et al (2007) is the case of the immigration possibilities. They note that immigration by Kenyan professionals is seen as a threat in Tanzania and Uganda, and Ugandans are viewed in a similar way in Tanzania. In addition, unskilled and unorganized labour is seen as a threat to by Kenyan trade unions.

The new East African Community customs union raises economic uncertainties in Uganda, including among others of manufacturing enterprises who fear being adversely affected by intensified import competition from Kenyan manufacturers that will enjoy duty free access to the Ugandan market under the new customs union. Indeed, they indicate that Uganda's economic welfare and the progress of Uganda's structural reform programme, to which trade reform has been central since the early 1990s, would be significantly compromised if the new customs union establishes a Custom External Tariff (CET) at an average tariff rate substantially above the current average tariff rate in Uganda (above 11%).

In contrast Kenya and especially Tanzania stand to benefit under most EAC customs union scenarios, which would establish a CET well below their current average tariff rates (about 18% and 34%, respectively) and, accordingly, would result in significant liberalization of the external tariff regimes of both countries. Even though the new EAC customs union would involve zero tariffs, on intra-regional trade, the common external tariff regime of the three countries remains important because imports from outside East Africa would still be necessary and, in fact, would continue to determine domestic prices of most trade goods in the three East African countries.

There will also be the increased trade in services as well as goods. For example, service provision to Kenya and Tanzania is important for Uganda for example in the tertiary, secondary and some even primary education and in health. According to Booth et al (2007), the export of financial services is already significant to Kenya, for example via the Kenya Commercial Bank and purchase and upgrading of local operators in Tanzania, Uganda and Sudan. In addition, Uganda's tourism potential is considerable, if integrated into established regional circuits. Kenya can be considered to have Nairobi which is considered as a center of service industries for the region.

It may also be noted that opening up of new hinterlands to the north (southern Sudan) and the West, Rwanda, Burundi and the DRC creates many advantages for the EAC countries. Business actors are currently viewing the west as their natural field of operation, including both markets and investment opportunities. For Ugandan businesses, the opening of Sudan and DRC allows some advantage to be extracted from the country's landlocked location. The inclusion of Rwanda in the EAC is important in its own right; it provides a doorway into the far richer DRC, Booth et al (2007).

Advocates of fast tracking argue that merging the existing political systems of the EAC countries is almost impossible. Although, some suggest a top-down constitution making process, this could also ignore the differences in political culture and values across the member states. For example, Museveni's success in obtaining his third term amendment raised doubts in Kenya and Tanzania about the democratic trend of Uganda. On the other hand, the single party dominance which is apparently deepening in the parliaments of both Tanzania and Uganda is unattractive to Kenyans. Yet the idea of importing the Kenyan MP's power mongering and ethnic politics is regarded with some horror in Tanzania. Again Rwanda, which is considered not to have a distinct political culture, also has a political leadership that some critics view as are rare case of an African Political elite committed to building a developmental state.

**Conclusion: Reclaiming Regionalism from Orthodox Trade Theory; Creating a Win-Win Situation**

This paper set out to examine the political economy of regionalism in East Africa. the evidence suggests that orthodox trade theory is weak as a guide to global *and* regional integration. According to Ha-Joon Chang, advanced countries that enforce orthodox trade theory onto the developing countries are not just Kicking Away the Ladder of their progress (Chang, 2002); they are Bad Samaritans (Chang, 2007).

What developing countries need, it would appear, is a shift from orthodox economic theory to strategic trade and industrial policies. The accent must be on the structural transformation of the national economy from primary commodity production to high value-added industrial and information outcomes. This would inevitably involve replacing orthodox trade theory with *production* economics theory that prioritizes wealth creation over the “trade-led” development orthodoxy. It will involve gradual and calculated integration into the global economy. It will also call for the recomposition of both imports and exports. Harmful imports, finished consumer goods or luxurious imports must be discouraged or even banned, precisely because they lead to wastage of domestic “bullion” on unnecessary foreign manufactures (Viner, 1948). At the same time, the export of raw materials or low-value added products (such as unfinished cloth) should be banned (Viner, 1948; Chang, 2002; Kiiza, 2006). The goal of recomposing our imports and exports is to promote domestic industrialization and wealth creation by encouraging imports of capital goods, industrial inputs and technologies as well as promoting the exportation of value-added industrial and information products. East African countries are unlikely to survive the harsh global economy unless they industrialize and penetrate the competitive global markets as producers of high value-added products.

Evidence suggests that late industrialization is unlikely to take root unless infant industries are protected (List, 1885; Chang, 2002). However, infant-industry protection should not be done for ever. If East Africa’s late industrialization is to avoid the Latin American errors of import substitution industrialization (which got protected for too long), it should use protectionism and other tools of strategic state involvement in industrial promotion for a short time of say 10 – 20 years. Secondly, East African

industrialization must prioritize selected industries such as textiles (which have a mass domestic market); pharmaceuticals (which are “necessary” products); computers and electronics (that are necessary for a modern information economy); or consumer durables that have a high income elasticity of demand. Strategic (defense-related) industries should also be promoted to save the huge sums spent annually on importing military hardware. At the same time, nationalistic defense industries will improve our capacity to defend our economic and political sovereignty from the harsh actors in the world economy.

None of the above will take root unless regional economic integration and political federation are pursued simultaneously. This means, both economic and political integration need to be “fast-tacked”. *Zeit ist Geld* [Time is Money], pronounced latecomer Germany. East Africa, too, needs to learn that time is money. We either fast-track integration now, or risk further marginalization. Thus, East Africa needs to learn *less* from the “weak” integration model of the EU and more from the “strong” integration models of Hamiltonian USA, Bismarkian Germany or Meiji Japan.

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